



Electricity Balancing Significant Code Review (SCR) – Initial Consultation

Prepared by the

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The Electricity Storage Network™

The Electricity Storage Network™ is the UK's industry association for the promotion of electrical energy storage. Current members include electricity storage manufacturers and suppliers, developers of electricity storage projects, users, electricity network operators, consultants, academic institutions and research organisations.

The Electricity Storage Network™ works on behalf of its members to respond to and address issues affecting the development and utilisation of grid-scale electricity storage within the UK power system. This includes special interest meetings, liaising with the media, responding to consultations, providing a unified point of contact for those interested in electricity storage and promoting the value of storage within the UK power system.

We strongly support UK energy storage solutions for the UK electricity system and by promoting local innovation in electricity storage we support wider UK industry.

Introduction

We welcome the opportunity to comment on Ofgem's Significant Code Review (SCR), prepared in response to the changes likely to the GB System as a result of Electricity Market Reform (EMR) and the EU Target model.

However while some of the detail of the EU Target Model is already known, the likely impact of the EU Target Model on Balancing is not yet clear (The Framework Guideline on Electricity Balancing (EBFG), FG-2012-E-009, was issued on 18 September 2012 and the Ofgem Workshops on the SCR commenced on 7 September 2012). This uncertainty makes it hard to assess the interaction of the proposed SCR with the EU EBFG. Additionally EMR is likely to interact with the proposed SCR, but as DECC have yet to finalise their proposed Capacity Mechanism (CM) and their Contracts for Difference (CfD), it clearly makes it impossible for Ofgem to fully understand the potential interactions that the CM and CfDs are likely to have with the SCR.

While a review at this time is welcome, the implementation deadlines for the EU Target Model, EMR and this SCR all overlap and are not complementary. The deadlines are fast approaching, but this is not a basis for making rushed decisions and if more time is needed to provide clarity to Stakeholders in regards of the SCR (and indeed EMR and the EU Target Model), then this time should be taken to avoid problems in the future or the need for further SCRs.

Our main interest in the SCR was in the interaction with the CM, which represents a potential mechanism for the funding of Grid-Scale Energy Storage. However in a recent meeting (15 Oct) with DECC it became clear that the CM generally is not yet fully developed and will offer very little support or incentive for storage. Ofgem have not shown how the SCR and any CM may interact in either this consultation or the associated Workshops. It is unsatisfactory for all parties, and especially those who seek to respond to these consultations on behalf of the industry if there is only an indication that there is likely to be an interaction. This complete lack of certainty limits our ability to respond.

Given all these uncertainties it is difficult to understand how the proposed SCR can have been developed to ensure positive or non-detrimental interactions with the EU Target Model and EMR

and there is a very real prospect that should the interactions be negative there will be a severe impact on the future GB system.

Response to Consultation

The stated aims of the SCR are:

Incentivise an efficient level of security of supply

1	incentivise optimal level of investment (through appropriate price signals)	✘
2	pay firm customers appropriately for the DSR service they provide if their demand is involuntary interrupted (to reflect the value they place on security of supply)	?
3	incentivise plant flexibility and DSR	✘

Increase the efficiency of electricity balancing

4	Minimise market distortions due to the need for the system operator (SO) to balance the system	?
5	Incentivise participants to balance their position as far as is efficient	?
6	Appropriately reflect the SO's costs for balancing in cash-out prices	?

Ensure our balancing arrangements are compliant with the TM and complement the EMR CM

7	Align GB balancing arrangements with EU balancing and capacity allocation and congestion management framework guidelines	✘
8	Work closely with the Department of Energy and Climate Change (DECC) to ensure cash-out arrangements and the EMR CM complement each other.	✘

In terms of Grid-Scale Energy Storage it is unlikely that the proposed SCR will promote investment or encourage flexible plant and DSR (aims 1 and 3). Further work is needed to assess whether the proposed SCR will meet aim 2.

Without further information and study it is not possible to determine whether aims 4-6 will be achieved. Further work needs to be undertaken by Ofgem before any comment can be made.

It is not clear how the SCR interacts with the EU Target Model or EMR, since neither is fully formulated and one has only been recently published. It is not clear how the SCR can address aims 7 and 8.

In summary, the SCR fails to address the stated aims and significant questions remain over whether the proposed SCR will achieve the stated aims or is indeed required. Further work by Ofgem is required to develop and demonstrated the value of the SCR to the GB System and Markets.

Question 1: Do you agree with the approach and the proposed stakeholder engagement throughout the SCR?

We welcomed the Stakeholder workshops, which allowed a limited exploration of Ofgem's rationale of the SCR. However significant issues were raised by attendees at the Workshops (and had been

raised in the earlier November 2011 consultation). While Ofgem has recognised the value of the points made, no attempt to address these issues was made during the Stakeholder engagement process. Stakeholders are unable to fully assess the implications and impacts of the proposed SCR, which therefore makes it difficult to respond to this consultation.

We recommend that Ofgem's staff re-read the responses to the November 2011 consultation, as many issues raised at the Stakeholder workshops for the current SCR had been previously raised and these still remain unaddressed.

We note that as Ofgem will not engage further with Stakeholders prior to the publication of their decision document, it is highly likely that the issues and concerns raised during the Workshops may remain unaddressed and unresolved.

We would recommend that prior to the publication of the decision document (due in spring 2013) that Ofgem hold a further Workshop that addresses the concerns raised at previous workshops (e.g. undertakes modelling of the proposed Balancing Energy Market, clearly details the problems with the current Balancing System Market that mean a SCR is justified) and discusses results of any further SCR development work with stakeholders.

Additionally a further workshop may occur post any final decisions on EMR and would also allow a fuller assessment of the interactions of the EU Target Model and the proposed SCR.

Question 2: Do you have any evidence that you would like to submit that may be relevant for any aspect set out in this document?

No Comment

Question 3: What is your view on the interactions between our considerations and aspects of the EU target model?

Clearly the EU Target Model, as well as EMR, will have a significant impact on the future development of the GB power system. While we welcome Ofgem's pre-emptive approach to the application of EU Target Model to the GB System and while we firmly believe that having a clear position on the needs of the GB System will obviously strengthen any negotiating position in the EU as the Target Model develops, it is not clear how the proposed SCR will interact with any changes needed in GB to meet EU Target Model requirements given that the balancing portion of the EU Target Model has only recently been published and there is much work to do before the Network Code is developed.

It is hoped that the Workshops associated with this consultation have given Ofgem an insight into Stakeholders views on the EU Target Model, which provides a basis for working within Europe on the Target Model to best protect GB interests.

However if, as stated, Ofgem wish to work in Europe to ensure that GB interests are promoted and protected, then specific Stakeholder workshops seeking views on the implications for the GB System of the EU Target Model would have presented a better opportunity to gauge Stakeholder opinions and needs, rather than initiating a SCR.

CHAPTER 4: Primary considerations

We have addressed only some of the questions and considerations, as detailed below.

Question 4: Do you feel there are any further alternatives to the reform options presented under our primary considerations?

Ofgem have yet to present a good case for the requirements for the SCR. Ofgem have not yet identified problems with the current Balancing Mechanism and Processes and so the SCR may be (a) unnecessary or (b) have adverse effects on an already functional market.

It would be preferable to await the outcomes of EMR, with particular regard to the CM and CfD, before taking significant action via a SCR. And any SCR should be developed with a clear understanding of future market developments and potential interactions. The current SCR is not able to consider interaction with EMR, the EU Target Model and other ongoing market adjustments. More time is required before such interactions can adequately be gauged. To proceed without a full understanding of the interactions has major risks: poor outcomes and further subsequent changes to a system already facing uncertainty due to EMR and the EU Target model.

Consideration 1: We will consider whether cash-out prices should be “more marginal”. Current cash-out prices are calculated by averaging a number of most expensive trades made by the SO to balance demand and supply. We could base the calculation on a smaller volume of trades.

It would be recommended that cash out prices should reflect the true state of the market, and allowing extremes of prices will send the correct signals for balancing and would encourage greater use of assets such as electricity storage.

Consideration 7: The SO is responsible for balancing the system. For that to happen, bilateral trading stops one hour before “real time”. We will consider introducing a new balancing energy market that allows parties to trade off their imbalances close to real time.

We feel that if prices are allowed to derive closer to real time prices, it will encourage all participants to take a more active interest in the management of the system and lead to greater use of system tools such as electricity storage.

Consideration 8: Renewable generators tend to find it difficult to predict their output. They face uncertainty, for example, around how strongly the wind will blow. Aggregating renewable output and balancing it centrally could improve the overall balancing efficiency.

Some generators are required to balance (dependent on size), while small generators not required to balance. This means that the onus to balance falls unequally on some generators and others do not participate. ALL generators, regardless of size, should be required to balance, creating consistency in the requirements (a "level playing field"). In this respect wind generation should be no different to "conventional" generation. This would also have the benefits of (a) limiting transmission constraints and (b) incentivising energy storage.

CHAPTER 5: Secondary considerations

Some of the design options for a Reserve Market seem to have the very real prospect that a non-System Operator (SO) participant could purchase reserve (generation) in the market, well ahead of

need and then sell back to the SO in the day ahead market (or closer to gate closure) at a potentially inflated price, when balancing is tight.